



# The Annual Report

## Introduction

The preparation of a written Annual Report, like the preparation of the financial statements, is the joint responsibility of the whole PCC. It puts all the PCC's financial statements into perspective and relates them to the wider life of the church. It will review the past year and link financial plans to the vision for the future. For this reason, while it is legally a separate document from the financial statements, the Annual Report and accounts (including the independent examiner/audit report) should always be presented together in the same publication.

The Church Representation Rules (Rule 9(1) (b)) require 'an annual report on the proceedings of the parochial church council and the activities of the parish generally' to be received by the Annual Parochial Church Meeting (APCM). The meeting is then free to discuss it.

The report is quite separate from the statement or address that the incumbent may wish to make to the APCM.

The Church Accounting Regulations 2006 no longer contain specific requirements as to the information to be included in the Annual Report, but simply refer to the need to comply with the Charities Act, any regulations made there under and the current charities SORP. The detailed requirements are in paragraphs 3.1 to 3.10 below.

The report will usually be drafted by the secretary and the treasurer of the PCC, but some PCCs may wish to involve others in the drafting. It is a significant document in the life of the church and should be prepared in that light rather than as a chore to be completed.

The PCC must adopt the report before it is presented to the APCM and it must be dated and signed by the chairman of the PCC meeting at which it was adopted. Ideally an early draft should be shown to the PCC, but beware attempting to draft by committee.

The independent examiner or the auditor will need to see the report as a part of their scrutiny of the financial statements.

Because the report must be written for the general public as well as for church members, it has to include information that church members might take for granted, such as identification of the parish church, how the PCC operates and the names of its members.

The whole report should deal with the main activities of the church and new developments planned. It will give a flavour of the church at worship, 'being' as well as 'doing', through its pastoral ministry and mission outreach, showing how it relates to those outside and on the fringes as well as in the congregation.

It is in no one's interest to make the report long and complicated. It is much more likely to be read if it is succinct and to the point. PCCs that have access to computers and desktop publishing facilities will want to make the layout attractive and may wish to include graphs, graphics and photographs.

The report should explain the governance and management structure and enable the reader to understand how the numerical part of the financial statements relates to the organisational structure and activities of the PCC. (See example included in Chapter 8.)

The full content of the report is recommended as best practice for all PCCs, but for all those PCCs that are below the audit threshold there are significant reductions in the disclosures.

The following sections outline the requirements that all PCCs must report. There are, however, specific mandatory requirements for larger PCCs. These additional reporting requirements (which may still be included by smaller PCCs) are shown in italics at the end of each section.

## 3.1 Aim and purposes

This section establishes the framework under which the PCC has operated in the year and its intentions. It should provide a statement of the aims and objects of the PCC. The primary object of all PCCs will be the promotion of the gospel of our Lord Jesus Christ according to the doctrines and practices of the Church of England. The PCC (Powers) Measure 1956 states that the PCC 'is to co-operate with the minister in promoting in the parish the whole mission of the Church, pastoral, evangelistic, social and ecumenical'. Some parishes may have 'mission' or 'vision' statements they wish to include.

Although all charities have always had to meet the public benefit requirement, the Charities Act highlights it by requiring all charities to demonstrate, explicitly, that their aims are for the public benefit, including charities advancing education or religion or relieving poverty, which were previously presumed to be for the public benefit.

Public benefit is assessed by two key principles:

- 1) There must be an identifiable benefit or benefits.
- 2) The benefit must be to the public, or section of the public.

The level of detail the PCC must provide will depend on whether it is a larger or smaller PCC (£500k gross income threshold).

For those below the threshold, the PCC must include a brief summary in its Annual Report of the main activities undertaken, explaining how these furthered the PCC's aims for the public benefit. The summary should also confirm that the PCC has had regard to the Charity Commission public benefit guidance, where relevant. The PCC can, of course, provide fuller public benefit statements if it wishes.

For those above the threshold, the PCC must provide a fuller explanation in their Annual Report of the significant activities undertaken in order to carry out the PCC's aims and strategies. It is up to the PCC to decide how much detail it wants to provide to clearly illustrate what its charity has done in the reporting year to meet the requirement. The Charity Commission guidance states that 'a charity that said nothing on public benefit in its Trustees' Annual Report, or produced only the briefest statement with no detail, would be in breach of the public benefit reporting requirement.'

Public benefit should be demonstrated in the 'Objectives and activities' and 'Achievements and performance' sections.

## 3.2 Objectives and activities

This section establishes how the PCC is trying to fulfil the aims of the church. All PCCs should provide a summary of the main objectives and activities of the church in the year. This should include:

- an explanation of the PCC's main objectives for the year. These may, largely, remain constant from year to year, but may also include a particular focus for a year, which may either have been determined by the PCC (such as particular work on the buildings) or led by the deanery or the diocese, (such as mission and growth initiatives).
- an explanation of the strategies and activities that have been adopted to enable the PCC to achieve its objectives. This could provide details of the programmes the church does, such as: regular worship services; house groups; women's, men's and youth groups; drop-in centres; outreach work etc.
- the costs of programmes and activities can be shown in the accounts and thus provide a direct link to the report;
- the policy for making grants or donations should be given (including how potential recipients are identified). It will be rare for a PCC to have social or programme-related investment activities but where these exist the policies adopted for the selection and management of these activities should be given.
- an explanation of the contribution of volunteers where they play a significant role either in the charitable activities of the PCC or in generating funds. This might include an explanation of the activities undertaken and the contribution in terms of hours or staff equivalents and may also include an indicative value of this contribution. Similarly, where the PCC has received unquantifiable free facilities or services during the year, it should explain briefly the extent to which it relies on these continuing in order to pursue its work.

## 3.3 Achievements and performance

This section details how the PCC should provide a summary of the main achievements of the church in the year. This could include:

- extracts from returns to the diocese on numbers of different types of services held and the attendance at the regular services, baptisms, confirmations, etc.;
- details of the various special activities that the church ran during the year, e.g. missions, fundraising for overseas mission, pilgrimages, community events etc.;
- a review of the charitable activities undertaken that explains the performance achieved against the objectives set. In some cases it will be possible to explain the outcomes in terms of numbers (such as numbers on the electoral roll and/or attendance figures). Much of the work of the church, however, cannot be reduced to numbers and in order to evaluate its achievements the PCC will need to draw on reports of experiences, which may be oral or written;

- where the objectives set cover a longer term than the financial year, the review will take the form of a progress report;
- where they are material, a review of the performance of fundraising activities against the objectives set for them;
- where material investments are held, details of investment performance against the investment objectives set;
- a commentary on those factors within and outside the PCC's control that are relevant to the achievement of the objectives. These might include relationships with employees, members of the congregation, and the church's position in the wider community. This is intended to give a context to the activities of the year. For example, the departure of the incumbent or a key member of staff may, necessarily, curtail some of the work planned for the year.

## 3.4 Financial review

The report will paint a picture of the financial position of the PCC that will supplement the financial statements. They will assist the reader in understanding what it is that they are being asked to support financially and how those resources (and others) are being stewarded and used. More specifically, as a new disclosure requirement for all charities says: 'If, at the date of approving the report and accounts, there are uncertainties about the [PCC's] ability to continue as a going concern, the nature of these uncertainties should be explained.' For any fund or subsidiary undertaking that is materially in deficit, the circumstances giving rise to the deficit and the steps being taken to eliminate the deficit must be explained.

It should also review the financial position of any subsidiary undertakings the church may have. This section of the report should also include:

- an explanation of the circumstances that have given rise to any fund that is materially in deficit and details of any steps being taken to eliminate that deficit;
- details of the principal funding sources and how expenditure in the year under review has supported the key objectives of the PCC;
- where material investments are held, the investment policy and objectives, including the extent to which social, environmental or ethical considerations are taken into account.

## 3.5 Reserves policy

The PCC should formulate and disclose its policy on reserves. The adoption of a policy on reserves will help to identify situations where a PCC may need to consider either reducing or increasing the level of reserves that it holds. For example, the church may be in receipt of income that more than covers all its running costs (including diocesan parish share). Money collected from parishioners is therefore over and above what the parish needs. Alternatively, there may be parishes where the reserves are too low to cope with the requirements of the PCC's cash flow.

In addition to stating the amount of reserves held, the report should explain what the PCC considers to be an appropriate level of free reserves,

and what action the PCC proposes to take to reduce or increase its free reserves where necessary. This will show the parish that it is acting responsibly in holding the level of reserves that it holds. The public can then fully understand the availability and planned use of the PCC's funds. Even if the PCC has no free reserves, it should provide an explanation.

Free reserves are defined as that part of the PCC's income funds that is freely available. This definition of reserves therefore normally excludes:

- (a) permanent endowment funds;
- (b) expendable endowment funds;
- (c) restricted income funds;
- (d) any part of unrestricted funds that is not currently available for spending (e.g. income funds that can only be realised by disposing of fixed assets held for charity use).

Individual parishes may have more or less reserves than this simple calculation suggests. For example, they may have expendable endowments that can be spent (increasing reserves) or they may have designated some part of general funds for a particular project (reducing reserves). For larger PCCs the reserves-level disclosure is more comprehensive. It should:

- state the amount of the total funds the charity holds at the year end;
- identify the amount of any funds that are restricted and not available for general purposes of the PCC at the year end;
- identify and explain any material amounts that have been designated or otherwise committed as at the year end;
- indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the year end;
- identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme-related investments;
- state the amount of reserves the PCC holds at the year end after deducting any restricted or designated funds;
- compare the amount of reserves with the PCC's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the PCC.

### **3.6 Funds held as custodian trustees on behalf of others**

In some circumstances the PCC may act as a custodian trustee for the assets of another charity. Where this is the case the report should give: a brief description of the assets held; the name and objects of the charity on whose behalf they are held and an explanation of how this fits with the objects of the PCC; details of the arrangements for the safe custody and segregation of such assets from those of the PCC.

## 3.7 Plans for future periods

The Annual Report should provide the reader with an explanation of the PCC's plans for the future (this will be the current year at the time the report is presented), including the key objectives and activities planned to support them. These will then form the basis of the objectives and activities section of the next report.

## 3.8 Risk management

Larger PCCs (with a gross income of more than £500,000) are required to make a risk-management statement. However, it is best practice for all PCCs to be aware of their major risks and it is strongly recommended that all PCCs have a risk-management policy.

PCCs must include in their Annual Report 'a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees [PCC members], together with a summary of their plans and strategies for managing those risks', as well as 'any factors that are likely to affect the financial performance or position going forward'.

For further details on risk management see the Charity Commission Guidance CC26, which is available on its website.

## 3.9 Structure, governance and management

This section should make clear to the reader the legal framework within which the PCC operates, and how decisions are made. It should include:

- An explanation of how the PCC is constituted. For most PCCs this will be as shown below. However, a PCC that is a team ministry or part of a united benefice should briefly outline how it is established here.

'The Parochial Church Council is a corporate body established by the Church of England. The PCC operates under the Parochial Church Council Powers Measure. The PCC is a Registered Charity (or where the PCC has gross income under £100,000 and is not a registered charity - 'The PCC is exempted by order from registering with the Charity Commission').'

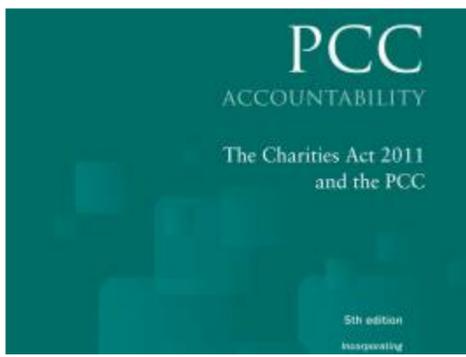
- A statement that the appointment of PCC members is governed by and set out in the Church Representation Rules.
- If the PCC has any related trusts or charities, an explanation of the relationship of the PCC to these trusts.
- The policies and procedures adopted for the recruitment, induction and training of PCC members. As the PCC has ultimate responsibility for a wide range of matters affecting the parish, including such matters as compliance with health and safety, disability discrimination legislation and child protection, it is important that the PCC adopts appropriate training procedures. These are likely to include training courses arranged by the diocese or deanery that are attended by a PCC representative who reports back to the PCC as a body, and the dissemination of reading matter.
- A brief description of the way the PCC organises itself in order to carry out its aims and objectives.

- Many PCCs will probably have only a standing committee, but others may well have various committees. The purpose or terms of reference of the committees should be summarised. This should make clear the types of decision that are delegated to committees or to the incumbent or administrator.
- The arrangements for setting the pay and remuneration of the PCC's key management personnel and any benchmarks, parameters or criteria used in setting their pay.

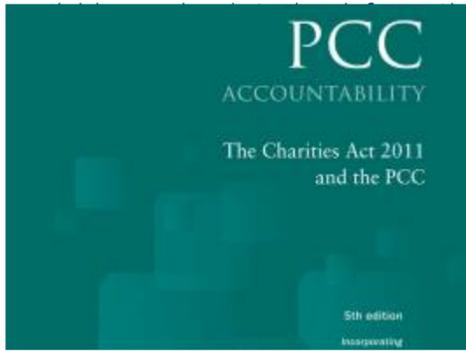
## **3.10 Administrative information**

This information should be given each year, even though much of it may be the same as for the previous year; it may be recorded separately from the main body of the report:

- the full name (town/village and church dedication) of the PCC;
- the location of the church (or address if it has one) and the PCC correspondence address. This could be the church office (if there is one), that of the incumbent or of an officer of the PCC that can be made public;
- the charity registration number (where applicable);
- the names of all the members of the PCC who have served since the commencement of the financial year until the approval of the financial statements. The names of those who have left the PCC and the names of those who have replaced them should be given. This is a list of all those who have been trustees of the charity. Those who have been officers of the PCC should be indicated;
- the names and addresses of bankers, legal and other advisers to the PCC, and of the independent examiner or auditor;
- the name of the person or persons to whom day-to-day management is delegated, e.g. the incumbent, and (for larger PCCs) any other persons designated as 'key management personnel'.



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